RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

SINCE 1958 •

POST OFFICE BOX 1759, LA JOLLA, CALIFORNIA 92038
26 LETTERS PER YEAR • $225 ANNUALLY

Sept. 6, 1989 LETTER 1025

THE PICTURE: A Chinese sage was asked a difficult question. He was asked to provide a phrase that would fit every imaginable situation. His answer -- " This too shall pass away."

Is there a comparable phrase that will fit all situations in the stock market? There most definitely is, and I hereby offer it to my subscribers -- "It never gets any easier."

Question: What's the meaning of the new record high in the Dow recorded on August 24?

Answer: First, a little history. The D-J Industrials Average hit a bull market high of 2722.42 on August 25, 1987. The D-J Transportation Average hit a bull market high of 1101.16 on August 14, 1987. A crash followed, the Averages turned up, and they continued up.

On April 18, 1989 the Transportation Average rallied over its 1987 high to close at a new record high. Four months later the Dow confirmed by bettering its own 1987 bull market high. As I see it, the belated Dow confirmation clarifies the picture. It tells us that the primary trend of the market is bullish, and, in fact, has been bullish all along, despite the great crash of October 1987.

Question: So much for history, but how do you see the picture now?

Answer: As explained in the last Letter, because of the new Dow high and the designation of a continuing bull market, I see all the action from mid-1987 to the present as part of one massive, convoluted market top, a top punctuated by a disastrous crash.

Question: Why do you call the action since August 1987 a top? What about Dow Theory?

Answer: First we must realize that Dow Theory consists of a good deal more than simply studying and classifying the price movements. Actually, Charles Dow placed his greatest emphasis on the concept of values. Again referring to the last Letter, I term the action of the last two years "a massive top," and I base this on valuation. For instance, the chart on page 3 of the last Letter traces the "Percentage of Undervalued Blue-Chip Stocks." From the chart it is clear that ever since mid-1987 the market has fluctuated in the rarefied area of tops.

From a Dow yield standpoint the same conclusion may be drawn. At the August 1987 highs the yield on the Dow sank to a minuscule and dangerous 2.61%. At the current highs the Dow yield is down to 3.38% which is not as low as the 1987 yield lows. Nevertheless, the current yield places the market in the area of tops.

Question: What about buying stocks now, since this is a reconfirmed bull market?

Answer: I believe the risk/reward equation in this market is now quite poor. In other words, I believe that there is a good deal more risk on the downside than there is potential reward on the upside. If you remember, my most basic rule in investing is, "First, lose no money." When the risk/reward is poor, as it is now, the chances of losing money are high.

Aug. 25 DJIA 2732.36; PTI 3203; A-D Ratio -5.73
Aug. 31 DJIA 2737.27; PTI 3217; A-D Ratio -5.67
Dow Yield: 3.37; Dow P/E: 12.0; DowPow: 1156
Dow BookValue: 1075; Dow 200-day MA: 2358
Percentage of Undervalued Blue-chips: 13%

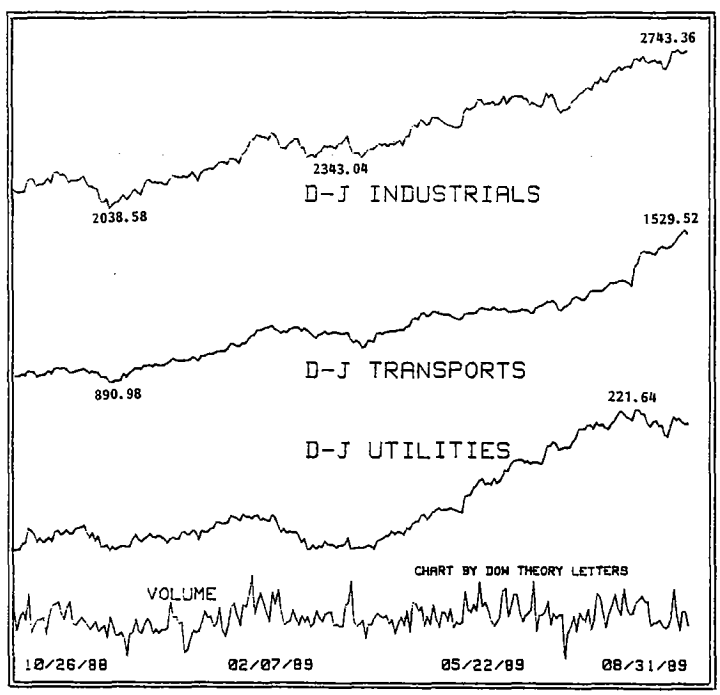
Question: Much has been made of the contraction of daily new highs on the NYSE as the Averages push higher. Does the dearth of new highs constitute a danger signal?

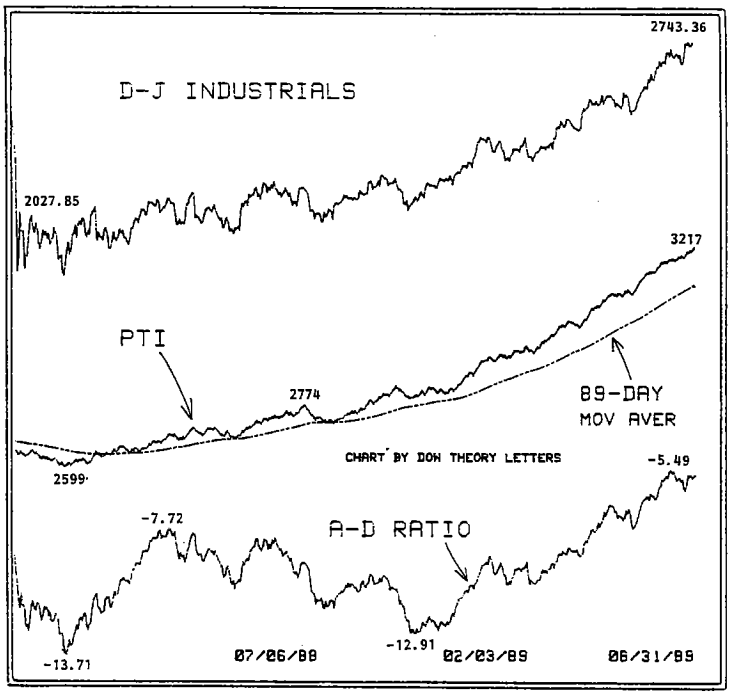
Answer: On August 24, the day the Dow rallied to a new record high, there were only 152 new NYSE highs. On August 28 as the Dow rose to another new record, daily new highs dropped to 92. No question about it, there's been a steady drop-off in daily new highs on the NYSE -- even as the Dow pushes to successive new highs.

But one of the remarkable things about this whole post-crash recovery is that so many widely-followed "signal devices" have simply failed to work. For example, Dow/A-D ratio non-confirmations abounded, daily new highs fell off, margin debt on the NYSE lagged, a negative yield curve occurred, the General Motors sell signal rule didn't work, and the three-step-and-stumble sell signal failed.

Where the technical picture has been clear is in the action of my Primary Trend Index. The PTI is based on the action of a majority of important indices and averages. Thus, if a majority of the eight items that make up the PTI continue to move higher (as they have been doing since January 1988), the market must move up.

All during 1988-89 my PTI paid no attention to the various failing individual indicators. The PTI takes all those phenomena (and more) into account. Furthermore, the PTI does not care whether it's a bull or bear market, and it couldn't care less about risk/reward,





values or sentiment. The PTI is concerned strictly with market action.

A steadily climbing PTI almost guarantees a rising stock market. And I've never seen a market that held together when the PTI was in a persistent downtrend.

Question: In view of the excellent performance of the PTI, why didn't you recommend buying and holding stocks after the January 1988 bullish signal given by the PTI?

Answer: Two reasons: The first is that I was personally loaded with bonds, and I had been recommending bonds to my subscribers for years. Furthermore, I felt bonds represented better values than stocks. I had (as I assume my subscribers did) very large profits on my bond holdings, and I wasn't ready to switch from bonds to stocks.

Second reason: Based on the October 15 Dow Theory bear signal, I felt that the primary trend of the stock market had turned bearish. Such reasoning, of course, precluded buying stocks. Some people are saying that the trend did turn bearish in October 1987, but that the trend turned bullish again at the crash bottom. On this point I disagree. I now believe that the crash was a once-in-a-lifetime interruption of the bull trend, and that the trend remained bullish despite the crash.

I should add, however, that there are subscribers who invest strictly on the trend of the PTI, while ignoring all other data, facts, and advice. They have, of course, done exceedingly well.

To sum up -- the bull trend was reconfirmed on August 24 when the Dow recorded a new high, but that new high and reconfirmation by no means tells us that the market is "a buy." Values determine when the market is a buy, and on a value basis the market is overpriced.

Question: Russell, I know very well what you don't like about this market. But what about playing devil's advocate with yourself? What do you think is positive about this market?

Answer: Here are the items I see as positive. First, this is a reconfirmed bull market. In view of that, there is unquestionably an awful lot of skepticism about the stock market picture. Now anyone who has had to deal with Wall Street over the years knows that "the market can do anything." The market can go to extremes on the downside as it did in 1974, and it can go to extremes on the upside as it did in 1987. So who's to say the market can't go to wild extremes again here in 1989-90. The yield on the Dow could conceivably shrink to 2.6% as it did in 1987, and that would certainly allow for higher prices.

Next, I note that there are still 484 million shorts listed on the NYSE, most of them "uncovered" or not related to arbitrage. That's a lot of shorts on the wrong side of the primary trend. In fact, it's too many. Thus, the market could still go on a tear, and drive many or most of those shorts out with losses.

To get back to my PTI, I just have had no bearish action from this trusted indicator. And in the absence of any sell indications, I would have to guess that the PTI will continue to climb higher. A climbing PTI would, of course, be a definite plus for the stock market.

On a fundamental basis, one important bull argument is that for the first time since World War II the superpowers appear to be smiling at each other. Russia's dangerous paranoia seems to be lower by many notches and has been replaced by an interest in the truth. The current absence of war-fear could give way to confidence, and confidence could ultimately become euphoria. Which is exactly how most bull markets end -- in euphoria. But we aren't there yet by any means.

Comments: Recently asked to give his scenario for "what could set off major trouble in the stock market," *Barron's* editor Alan Abelson answered, "The event that everyone's given up on -- a crash in the Japanese market."

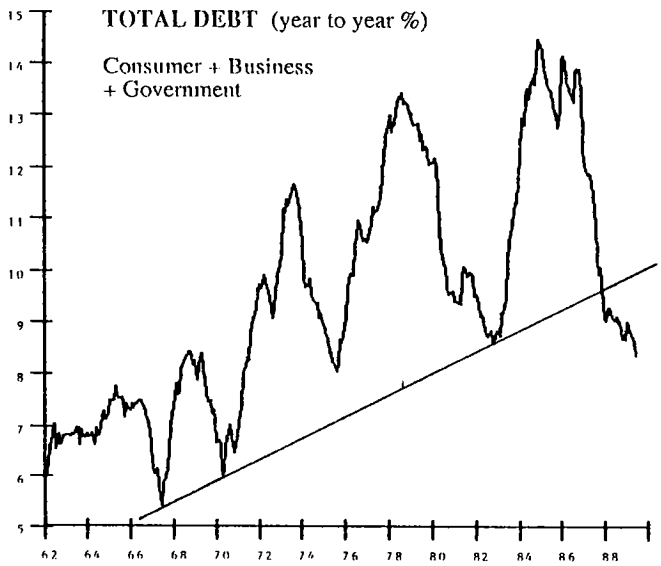
Meanwhile, a bearish Joe Granville says he's found the "hook" for 1989 (the hook is something widely believed that fools the majority). Today's hook lies in the phrase, "This is not a repeat of 1987 because this time it's different." This hook, says Joe, sets the market up for an October massacre.

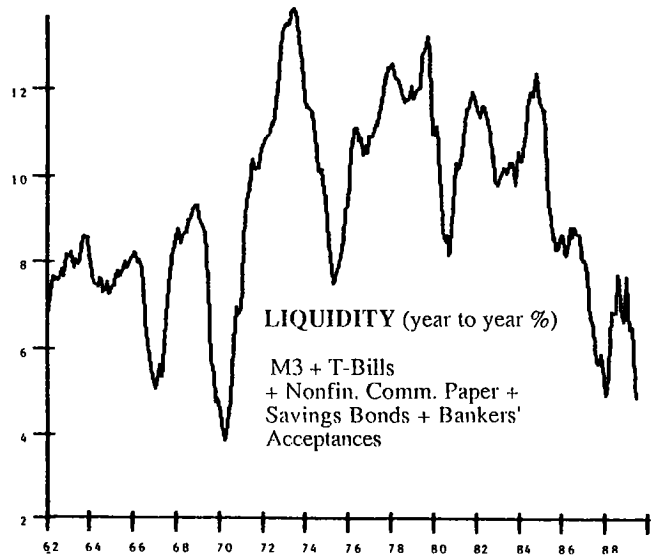
INVESTMENT POSITION: On the basis of the August 24 Dow confirmation, I've put the bull back in the box. But he's a nervous, shaky bull.

Personally, I'm now about 90% in money-market funds with small investments in no-load stock funds and a few bonds. I still have no bearish signals from my PTI, signals suggesting that I should be cautious. But one has got to be comfortable with one's stance, and I'm happy with mine. I took very large profits on my bonds, and at this point I want to sit on the sidelines and watch for a while. And it wouldn't bother me if my subscribers did the same.

Frankly, a number of things bother me here: (1) I don't like the shrinking liquidity or the declining debt creation (see later section of this Letter, **Contracting**); (2) I don't like the low yields now being offered by stocks; (3) I don't like the fact that the public is enamoured with, and heavily invested in, bonds; (4) I don't like the mania being displayed by the D-J Transportation Average, and I find the parabolic explosion in UAL frightening and rather ominous; (5) Like Joe Granville, I don't like the sharp drop-off in daily new highs; and (6) I don't like the fact that only 10% of the leading economic indicators are now expanding.

CONTRACTING: The following could be the most important story of the decade. Read it carefully. I illustrate it with two charts courtesy of Ed Hyman of *C.J. Lawrence*. The first chart traces the year-to-year rate of growth in total US debt (consumer + business + government). What we see here is the slowest rate of debt growth in 19 years. Writes Hyman, "Over the past year (debt growth) has slowed to an 8.3% increase, the slowest since 1975! Our work shows that money leads Debt and that Debt and GNP grow





together. So if Debt growth continues to slow, which we think it will, then Nominal GNP growth should continue to slow." Ed Hyman thinks that's bullish. I'm not so sure.

This country has lived for decades on expanding debt. What happens when debt growth enters a contracting phase? A decline in debt-growth is probably healthy for the nation in the long run, but in the shorter run, mmmmmm.

One answer to the puzzle comes from a current paper published by my old friend, the brilliant Bill Tehan of *P.R. Herzig & Co.* Bill notes that the Fed (contrary to what most people believe) can't single-handedly increase the money supply. "Credit creation or money supply expansion requires (1) a demand for loans, (2) a willingness of the lender to lend, and (3) willingness of the Fed to loan to the banks so they can meet customer credit demands (this has never been a problem). But credit creation entails a demand for loans." In other words, credit creation occurs when people or corporations go to the bank and take out loans.

But what does a steady decline in credit creation (such as is now occurring) mean? Says Tehan, "The shrinkage in loan demand and the consequent deposit contraction in a leveraged credit system, which accompanies an economy losing forward momentum, reduces the real 'money supply' or purchasing power in the economy. It also brings about a contraction in the credit structure which supports the price level of the economy. This is essentially what happened in the 1930s. Markets turned dramatically to buyer's markets, but the buyers had no money.

"Conditions in the economy and the banks today are like those of the 1930s. The economy is turning rapidly down, commodity prices are falling, industry is becoming more wary of borrowing to invest in new plants and equipment, and the consumer, who accounts for 68% of GNP, has currently raised his savings rate from 2.7% in mid-1987 to 5.7%."

This retrenchment is what we see in the chart above. Declining debt growth and accompanying declining GNP can lead to deflation. But in deflation lies a huge problem. The people who floated the massive mountains of debt over the past decade or so planned on inflation forever. They never planned on deflation. Remember this -- inflation makes debt easier to carry and easier to pay off (with cheaper dollars). Conversely, deflation makes debt much more difficult to carry (because dollars are worth more, and dollars are harder to come by).

The second chart (also by Ed Hyman) shows that liquidity (the broadest measure of money) is registering its lowest rate of growth in 20 years (since 1970). Here again, liquidity correlates quite well, historically, with GNP.

So from the standpoint of debt growth and liquidity growth, it would seem that the GNP is fated to head down (although remember, there is a time lag).

So far, the stock and bond markets have reacted (bullishly) only to the fact that inflation is ebbing. They have not dealt with the problem of deflation, true deflation. If the trends shown on the charts continue, the real problem will be liquidity or how to hold up the $12 trillion in debt that is now built into the US economy.

If a liquidity crisis materializes, there will be a rush for money and for quality. And I agree with Bill Tehan when he states that "interest rates will rise as the quality of credit deteriorates." Adds Tehan, "In 1929 the stock market ran up on the same basis of dissipating inflation. A major difference between now and then is that bank deposits were still expanding in the late 1920s. Today they are contracting. The stock market and the economy are running on a leaking fuel tank."

It's worth thinking about.

SAN DIEGO, MEXICO: Geographically, San Diego really is a remarkable place. Drive two hours to the north and you're in Los Angeles, one of the major cities of the U.S. (also one of the most crowded and smog–filled). Drive 90 minutes east of here, and you're high in the beautiful Laguna Mountains -- probably in the little town of Julian with its lovely apple orchards. Drive two hours east of here, and you're in one of America's great deserts, the massive, stark Anza–Borrego. Go 40 minutes south of here and you're on the border, about to cross into Tijuana and Mexico at the world's busiest border crossing (53 million people move across the San Diego/Tijuana border every year). Go half an hour south of the border and well, here's a story . . . .

Last Sunday Mike Susak (a Bateman Eichler man) and I gassed up our Harley motorcycles, and at 7:30 a.m. we headed south. In about 45 minutes we arrived at the US/Mexican border at San Ysidro. We crossed the border and, skirting Tijuana, we roared south into Mexico (technically, Baja California). About 10 miles south of Tijuana we paid the 85 cent toll and hit the Mexican coast highway which winds its way down to Ensenada and points south. The highway follows the coast (in certain stretches you're practically in the ocean), and the scenery is breathtaking, it's magnificent. It's blue ocean with the Mexican islands looming to the west.

And believe me, 20 miles south of the border you know you're in a foreign land. On all sides you see both poverty and beauty. Roughly 45,000 Americans ("gringos") have bought homes on the Baja coast, with an amazing build-up. When I first came out here in 1961, the Mexican coast was bare, except for occasional little stucco buildings and a few scattered stores and restaurants. The Mexican attraction is cheap and easy living, beautiful scenery, and a life next to the ocean (homes here can cost as little as $20,000). Only Mexicans are allowed to own land within 30 miles of the coast or 60 miles from the border, but with new laws the land leases can be extended to 60 years. Also, Americans are finding that homes that cost a million dollars in California can be built for $100,000 in Mexico.

We stopped at the Rosarita Hotel at Rosarita Beach (horseback riding on the beach if you want it), had breakfast, then got on our bikes and headed farther down the coast. About 20 miles south of Rosarita we pulled up at an inn called Calafia. The inn was situated 100 yards above the water and it offered one of the most magnificent sights for dining and dancing that I've ever seen.

We gazed at the ocean for half an hour, then got on our bikes and headed back. At the border there was about a quarter mile of cars lined up and waiting to enter the US. It was midday, it was very hot, and many people had turned off their car motors and ended up pushing their cars to the border patrol checkpoint (it saves the engine). One advantage of a motorcycle is that you can ride between long lines of cars and move right up to the checkpoint, saving yourself a bloody hour in the sun. So that's exactly what we did.

There were two cars ahead of me at the checkpoint. For some unknown reason the car ahead of me suddenly backed up and neatly crumbled the front fender of my Harley. Seeing red I demanded to know whether the Mexican who did the damage had any insurance. No, he didn't. And he was sorry, but he had no money either. And the accident happened on the Mexican side. Cost: one Harley front fender. Susak grinned, "Listen, it could have been worse. It could have been my fender." "Yeah, and it could have been even worse than that," I laughed, "it could have been me instead of the fender." Cost of the trip: $2.50 for gas, $5 for breakfast, and $152 for a new fender.

DIAMONDS, JEWELS: For some reason, I get lots of questions about gems. So here goes. One of the biggest rip-off "investment" areas is that of precious stones. The jewelry trade thrives on the public's almost total ignorance about precious stones. The old adage about diamonds runs, "You buy 'em at retail and sell 'em at wholesale." And in general, that's about the story.

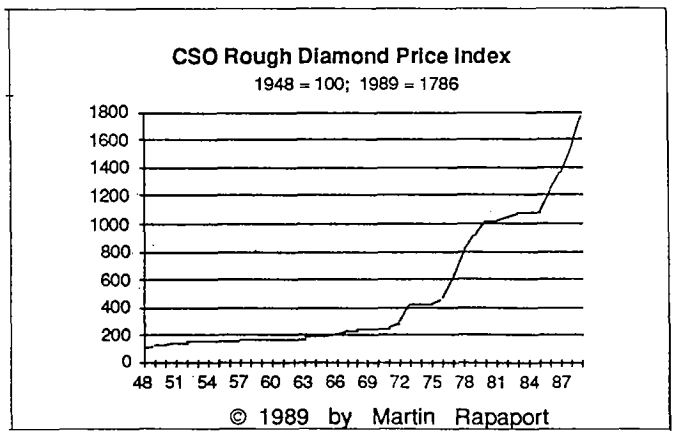
Are diamonds and colored stones (i.e., rubies, emeralds, sapphires, etc.) a good investment? I never advise people to buy jewelry as an investment, although if quality stones are purchased in depressed or rising markets they can eventually turn out to be good investments. But basically, you buy gems because you love them, not because they're investments.

There are some safeguards, particularly in the area of diamonds. First, never buy a diamond without an up-to-date GIA certificate. This certificate will state the four C's of diamonds -- color, carat, cut and clarity. In recent years (and many diamond dealers resented this) there have appeared a few pricing reports. One is known as the Rapaport Diamond Report (15 W. 47th St., NYC 10036). The "Rap Sheet" gives wholesale prices for diamonds in all sizes up to 5.90 carats and for all colors and clarities. Example, right now the price for a one carat "D" color (D is almost colorless, which is the best), internally flawless round-cut diamond is $18,000. So with a GIA certificate and the Rap Sheet you can make a rough estimate of what a given diamond is worth.

Colored stones are much more difficult to evaluate since much more subjective analysis is involved. In fact, it usually takes an expert to even come close to estimating the worth of a colored stone. By the way, the formula for value in gems is as follows: REDS, or rubies, emeralds, diamonds, sapphires.The most expensive stone (all things considered) is a ruby, next emerald, next diamond and last sapphire.

Over the last few years the price of fine rubies has gone through the roof. The best rubies come from Burma (a top-quality three carat Burma ruby can bring over $100,000 at auction). The Burmese government now totally controls the ruby industry and the penalty for smuggling a ruby out of Burma is death.

Diamond prices have been rising ever since the early '80s. One reason is heavy buying by the Japanese, who have recently moved to buying large (over 5 carat) stones (previously, large stones were considered vulgar by the Japanese -- but this is definitely not the case today). The fact is that Japanese buying over recent years has been so intense that the story one hears is that "all the best stones are automatically shipped to Japan and sold there."



The "rough" diamond business is controlled about 90% by De Beers and its CSO (Central Selling Organization). The price of the rough (unpolished) stones has never gone down, thanks to the CSO's amazing cartel-control of the product (see accompanying Rapaport chart). The polished or finished diamond picture is another story, and there prices are subject to supply and demand. However, as the price of the rough goes up, this places a rising floor under the price of finished diamonds.

And as I said, the prices of polished stones in recent years have been strong. In fact, De Beers raised rough prices 5.5% in March, the largest single increase in 11 years. The De Beers move has served to push finished prices substantially higher, and many US jewelers have lowered the quality of their diamonds to attract buyers.

Finally, I should add that a great many of the little diamonds you see in jewelry store windows are of poor color, cut, and quality. Therefore, they can be worth much less than the asking price. So the rule is -- do not buy without a GIA certificate. Next, know your dealer and know his reputation. Be very, very careful.

NOTES & QUOTES: Harley Davidson uses Kevlar belts (instead of chains) on its big motorcycles. Kevlar (one of the strongest materials ever invented) is the wonder synthetic used in making bullet proof vests. Amazingly, spider's silk, in terms of strength, is similar to Kevlar. Ounce for ounce, spider silk is considerably stronger than steel. It takes 10 times more energy to break a strand of spider silk than it does to snap a comparable steel thread (which explains why delicate spider webs can capture and hold large, struggling insects such as bees and dragon flies).

* *

Speaking of Harley, I can't think of another manufactured product that has a true American mystique such as Harley now enjoys. Here on the West Coast (and in fact everywhere in the US) owning a Harley is "in." In Hollywood, $15,000 to $30,000 customized Harley s are all the rage.

* *

The Nordstrom stores continue to be one of the wonders of the retail trade. Nordstrom has reversed everything the retailers were

doing, providing a lot more service, while using thoroughly trained, highly motivated personnel. Last year Nordstrom did $380 in sales per square foot, far ahead of Macy's Northeast Inc., which did $227, the Broadway at $149 and Marshall Field at $138. Seattle-based Nordstrom is now invading the eastern US. As for other retailers, Saks Fifth may soon be for sale, Carter Hawley Hale lost its crown jewel, Neiman Marcus, and L.J. Hooker (they own Bonwit Teller and B. Altman) has filed for Chapter 11. Furthermore, the trade is casting a wary eye on such LBOs as Campaneau, Inc. (Bloomingdales, Burdines, Jordan Marsh) which is struggling with mountains of debt.

* *

At the National Institute of Aging they found (in studies of mice) that only one thing consistently extended their life span (by as much as 35%). It was lower intake of food (fewer calories, high nutrients). Neither surgery, drugs, vitamins, antioxidant therapy or anything else worked to extend life expectancy.

* *

Veteran subscribers know that I am not a gambling buff. I say, "Go to Las Vegas for the bargain food, but forget about the cards and slots." Why, what's wrong? How's this for proof: in fiscal '89, gamblers lost $4.43 billion in Nevada casinos, up 8.8% from '88. This amounts to losses on the part of players of $121 million per day. Have fun!

* *

At the big ISI seminar a few weeks ago in San Francisco, I talked to Jim Benham, head of the Benham funds (many money market funds). I told Jim that I remembered back in 1975 in Bermuda (at the NCMR seminar) that Jim was trying to get his money-market fund (one of the first) up to around $150 million, at which point he could break even. "Jim, how much money are you handling now?" I asked. "It's a little better," he said, "We're up to $5.1 billion with millions coming in every week." I also asked him if he was going to start a foreign currency fund. He said no, and the reasons are simple enough. Starting in January, it will be legal for US citizens to go to their local banks and open up accounts denominated in foreign funds. In other words, you can go to your bank and tell them that you want to open up an account for $25,000 and hold the money in Japanese yen. The times they are a'changin'.

* *

Seniors with homes that have appreciated over the years might look into "reverse mortgages." Here the mortgage company pays you a monthly payment (for life if you want) and it shares the future appreciation of your home with you. How much you receive each month depends on your age, value of your home and the amount of the potential appreciation you are willing to share with the lender. Payments are tax-free since they are loans. In all cases, you retain title of your home until you sell it or until you die. For older people who have most of their assets locked up in their home, this is an interesting way to boost your standard of living. If you do it, you must check out closing costs, appraisal, origination fees, interest on loan advances, insurance fees for loan guarantees, etc.

* *

The huge New York City market may be the place to watch as far as the economy is concerned. *Crain's New York Business* notes that their Index of NY activity has dropped in four of the first six months of '89. Furthermore, tourism in Gotham is dropping off. In the first three months of the year hotel occupancy has slumped by 500,000 or 6.6% from last year. In the meantime, the city's hotels will add 3,700 rooms in the next 16 months.

* *

In the face of the sensational reaction to Toyota's new Lexus luxury car, the US's Big Three are going to raise prices an average of 3.4% on the new 1990 models. *Automotive News* says that the boosts will amount to roughly $430 per car while GM's two-part raise will add $525 per car. Good luck.

* *

Budget director Darman (in an obvious "feeler") indicates that taxing Medicaid, military disability and Social Security benefits may be necessary. One thing is clear -- Darman isn't running for re-election (he's appointed).

* *

The airline takeover phenomenon of 1989 will probably do down in history as another Wall Street "mania." The last thing the airline industry really needs is more debt. What they do need is new planes. Here's an industry that's only been marginally profitable over the last decade, and it's an industry with a long history of wildly cyclical swings. "To pay top dollar for airline stocks," says a recent issue of *Fortune*, "buyers must assume that high fuel prices, serious labor unrest, and ruinous fare wars will no longer occur." The airline mania is based on the fact that there has been a huge shakeout in the industry with only eight large US players remaining (the eight control 94% of US traffic), and actually only four giants now in the running. The industry has placed orders for $100 billion in new aircraft while the industry's entire cash flow for 1988 (a good year) was less than $5 billion. The test of this highly leveraged industry, of course, will come during the next recession.

* *

Forbes' maverick columnist Ashby Bladen notes that the government (via the S&L fiasco) is now the biggest owner of commercial real estate in the Southwest. Bladen adds that if the next recession takes used car prices below the cost of manufacturing new ones as happened in 1929, Detroit could go into the tank. "So to keep any future downturn from developing into depression, the government may also have to become the car buyer of last resort."

* *

Sports quiz: Only one major sport does not have a regulated playing field. It's golf. . ..In only one sport does the manager wear the same uniform as the players. It's baseball. The reason is that in the old days the manager was also a player, and thus he wore the uniform of his team. ... Only two sports have international acceptance in almost every major country. They are golf and tennis.

* *

Speaking of sports, there are now about half a dozen baseball card shops in San Diego. The card collecting has become a widespread craze. I visited a baseball card shop last week with my eleven-year-old son, Ryan, and I was amazed. The shop was stocked with thousands of cards, each one marked, graded and priced. Some cards sell for huge prices ($1,000 for a 1951 Mickey Mantle). Hundreds of other cards are marked at $1 to $25. Some complete years sell for fat prices (such as the complete Bowman set of cards for 1949 at $11,500). Kids are buying the cards as fast as they can raise the money. Magazines list and catalogue all the cards along with prices (the prices change every month). It's a true industry, and the prices are increasing far faster than prices for US postage stamps. Note: I remember that many years ago Bob Bleiberg, editorial director of Barron, wrote a piece in which he stated that his son was accumulating baseball cards and was doing better at card trading than he (Bleiberg) was doing in the stock market. I laughed, but that may have been the investment tip of the decade.

* *

The current (Sept. 11) issue of *Fortune* is dedicated to the world's billionaires ("Who They Are, How Much They Have, How They Got It") and the magazine gives us another of their breathless lists (there are 157 billionaires in the world, and Fortune lists them all in order of wealth from the Sultan of Brunei ($25 billion) down to the bottom on the list, Max Schachenmann of Switzerland ($1 billion). Most of the billionaires, says *Fortune,* are hard workers and even workaholics. But billionaire Ross Perot warns, "Guys, just remember, if you get real lucky, if you make a lot of money, if you go out and buy a lot of stuff -- it's gonna break. ... *Things* just don't mean happiness."

* *

Yeah, and look at what's happening to Mike Milken and Leona Helmsley (both on the billionaire list). And remember Bunker Hunt and his brother? Now they're even bad-mouthing poor Malcolm Forbes (who only has around $400 million and didn't even make the billionaire list) for even suggesting that part of his 70th birthday party could be a tax writeoff. Of course, the real story of Malcolm's party wasn't particularly happy. According to *Womens Wear Daily* ("The Tangier Tussle") Malcolm's guests were furious because they were put up in the hot, un-airconditioned Hotel Solazur. Furthermore, to "check in" to the party the guests had to stand in line for an hour and then pick a card which told them where they were to sit (instead of being able to sit next to their favorites, the guests were subjected to random seating). From another source I learned that Liz Taylor (Malcolm's hostess) was furious because she had to stand in line for hours and greet everyone (Said Liz, "How could he do this to me!?").

* *

Scudder (in a special report) states that "The Fed is in an uncomfortable spot. Gradual restraint and the rising dollar have slowed the economy without the painful side effects of previous credit crunches. If the rate of economic growth can remain balanced at 1 1/2 to 2 1/2% pace, cyclical inflation pressures should moderate. What the Fed didn't bargain for is the rise in the dollar. The dollar's rise has applied an additional layer of restraint on an already subdued economy. Consumer spending and housing have been slowed by high interest rates. Now the strong dollar risks dampening export production and capital spending and, in time, inducing a renewed deterioration in the trade deficit. If the Fed waits too long to ease, the cutbacks on both the production and consumption sides of the economy could feed on each other. If the monetary brakes are released too fast, the dollar could enter a downward spiral and another inflationary bout of consumer-led growth could begin."

* *

Amniocentesis will tell you the sex of your still-unborn child. Want to know the kid$ ultimate height? Girls average 52.1% of their adult height at age 2. Boys average 51.1% of their adult height at age 2 1/2.

* *

Two years ago my brother-in-law (he runs a film production company) told me that Kodak was ultimately going to be knocked out of its main business -- film. Why? The future of the industry is in electronics and video, not film. What's happening today? Kodak's graphics art products (used in color printing of magazines) are losing out to computerized technology. Kodak's microfilm is losing out to computerized information retrieval. Kodak's X-ray film is losing out to computerized scanning, ultrasound and magnetic resonance technology. Kodak's motion picture film is losing out to advances in videotape (my info says that ultimately, videotape will take over from film entirely). Problem: Kodak missed the big picture in electronics .

* *

In San Diego we have "Club DRIP." That stands for "Don't reelect incumbent politicians." Here are the disgraceful figures -- of the 408 House Members who ran last November, 402 won. Being a politician in the US is like having a lifetime job. It's disgusting. And our federal deficits attest to that.

* *

As the old saying goes, "There are lies, and there are damned lies." The US government's reports on the deficits come under the category of damned lies. Budget gimmickry (I call them lies) includes asset sales, over-optimistic assumptions, "off budget" diversions, diverted trust funds, shifting of expenses from one fiscal year to the next. But it all shows up in the federal debt statistics. The actual figures are shown below (compare "Total public debt statistics").

U.S. Finances

for Wednesday, April 12, 1989

WASHINGTON (AP) — Here are figures on government spending and debt (last six digits are eliminated). The government's fiscal year runs Oct. 1 through Sept. 30.

Total public debt April 11	2,755,012
Statutory debt limit	2,800,000
Operating balance April 11	9,417
Interest fiscal 1989 thru Feb.	100,493
Interest period fiscal 1988	90,810
Estimated deficit fiscal 1989	163,300
Actual deficit fiscal 1988	155,102

U.S. Finances

for Thursday, Aug. 17, 1989

WASHINGTON (AP) — Here are figures on government spending and debt (last six digits are eliminated). The government's fiscal year runs Oct. 1 through Sept. 30.

Total public debt Aug. 16	2,824,831
Statutory debt limit	2,870,000
Operating balance Aug. 16	21,694
Interest fiscal 1989 thru June	191,284
Interest period fiscal 1988	169,105
Estimated deficit fiscal 1989	148,300
Actual deficit fiscal 1988	155,102

For the four months ending August 17 the federal debt increased $69.8 billion. Actually, the US is adding around $250 billion a year to the total federal debt, and what the politicians in Washington are telling us are damned lies. Is it any wonder, then, that interest rates don't collapse when they are supposed to do? At this rate, the ultimate collapse will come in the dollar, not in interest rates. Under these conditions, I continue to advise accumulation of gold under $400 an ounce.

GOLD: "Gold, gold, you're making me old." I published this brilliant little poem back in 1975, and look what happened only a few years later.

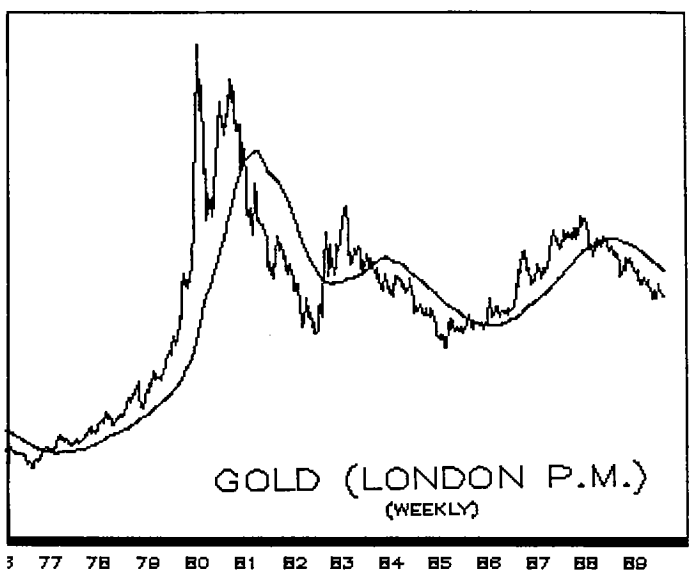
Gold bulls won't be celebrating Christmas early this year, and here's a chart that shows you why (chart courtesy of Paul Eldridge and *Target Inc.*). As you can see, gold has been holding below its long-term moving average, and as long as it does that the gold bear will be in charge.

Actually, that's not completely true. The gold bull market hit a high of over 800 in the frantic early days of 1980. From there the bear held gold in its grip, and the ensuing decline carried it to a 1985 low. The 1985 low for gold was 284.25 recorded on February 25.

Gold has not been lower since. What does that mean? Does that mean that the bear market in gold is still in force, or was 284.25 the bottom -- the final bear market low? We don't know, and unfortunately we can't know at this time.

Here's my guess. My guess is that the bear market did end on February 25, 1985, and since then gold has been in "no man's land" -- but nevertheless building a base for the next bull market. The caveat -- if gold does break 284.25 I will have been wrong, and the gold bear market will continue. I don't think that's going to happen, but as they say, "the market can do anything" and that includes the gold market.

Most recently, "the strong dollar" has been the excuse for gold's decline. Obviously, with consumer confidence at a 20-year high and with the dollar strong, there is little desire to hold non-interest paying gold. But I continue to believe that gold under 400 is a bargain. At 400 nobody wants gold. At 800 in early-1980 everybody wanted gold. And when everybody wants an item whether it's gold or UAL or a house in Southern California, those items cease to be bargains.



LATE NOTES: Don't tell me I'm not an optimist. I have season tickets to the San Diego Chargers (Las Vegas odds for SD to win the Superbowl -- 60 to 1).

As for the stock market, day after day my PTI keeps hitting new highs. In fact, since 1971 when I first started publishing charts of the PTI I have never seen the PTI: (1) rise for this long a period without a correction at least down to its moving average; (2) hold so far above its 89-day moving average for so long a period of time.

NEXT MAILING: Wednesday, Sept. 20